

FORBES

hurts the refiners
As recently as midsummer, most
oil to consumers. "Five and a half months
ago at higher prices.
The decline in fuel demand in the dead
of winter is indicative not only of the re-
cession, which is sapping industrial de-
mand, but more importantly of struc-
tural change.

Glut Permits
Tough Stand
With Sellers

The Oil Glut
Won't Go Away

I've
Energy
Crisis
Is Over!

How we beat OPEC

World oil markets at
new round of price cuts a
everything from crude o
continues in the 'S. W
Japan

Can OPEC
Survive
the
Glut?

After nearly a decade of
oil prices, the world may at
long stretch of price stability
supplies. Oil-company offi-
pendent energy experts believe
rent fall in price rises in
through the 1980s.

THE GREAT OIL SWINDLE

Switch: As Oil Use Drops

Prices Crack?

Says Oil Output

Sharply Cut

Wholesale Oil Prices

World Oil Glut

Finally Engulfs

Venezuela

Set to Cut

Its Oil Pro

Accor

Legal to

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Customers Are Told of

That Could Spark Drops

In Quotes of Other Crudes

Falling prices and shrinking world de-
oil are forcing Mexico to brake
economy after four eu-
expansion.
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ront in disarray. Hard-liners like
refused to lower their \$40-a-barrel
prices, despite enormous pressure—and a flood of surplus

Wholesale Oil Prices

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Opec 'needs a little magic'

Are Energy Crises Over?

Use Declines

arts See a Slowing

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Mexican oil policies. Political opposition
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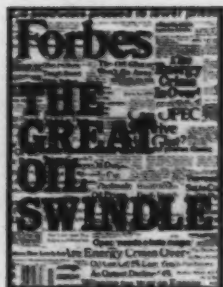
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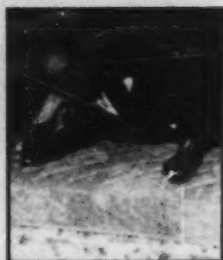
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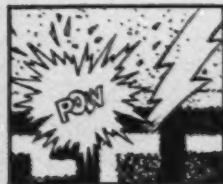
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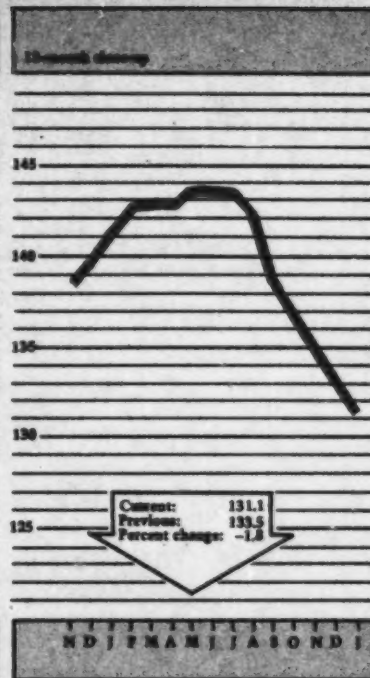
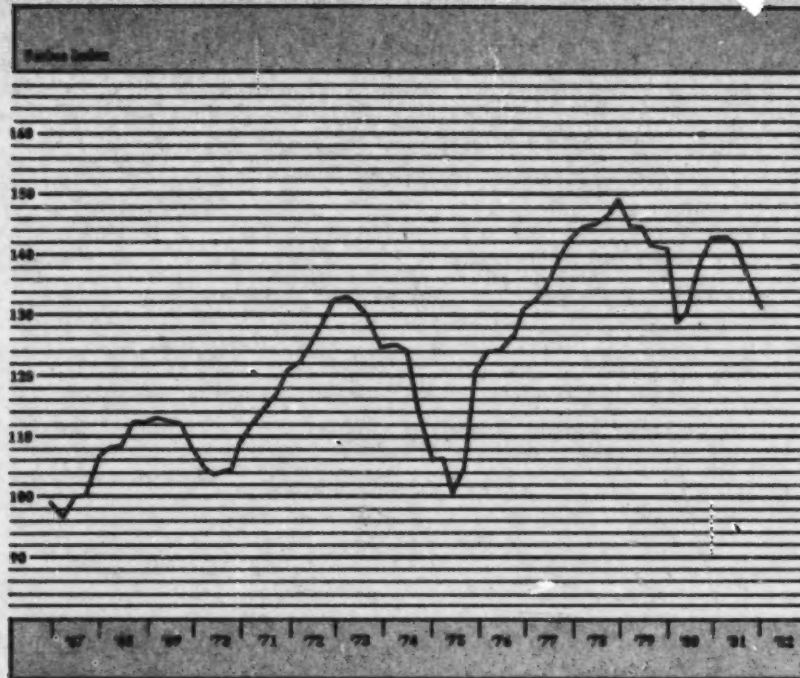
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Dark and deep. The Forbes Index has once again taken a turn for the worse. Industrial production dropped 3%. That is the largest monthly decline since the end of 1974, when the economy was also wracked by a severe recession. Housing starts took an even heavier pounding, crashing 21% to the lowest point ever recorded by the Index.

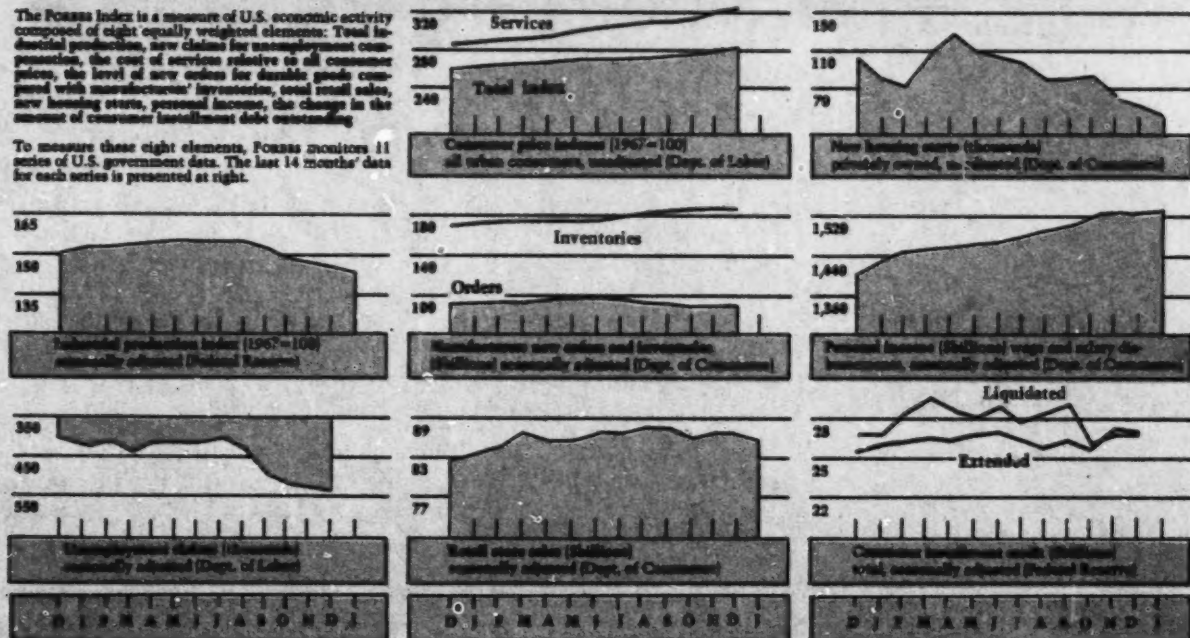
On the consumer front, retail sales fell 1.1%, while

personal income rose a meager 0.2%. That means individuals have yet to become the driving force behind a recovery. Most economists, however, expect consumers to begin fueling the anticipated advance after July 1. Two things could trigger a spending turnaround then: The second stage of the Administration's tax cut goes into effect, and Social Security payouts will rise.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



Business booms for corporate raiders. But don't rush judgment. Victor Posner and Saul Steinberg are ecologically useful.

In defense of sharks

By Richard L. Stern
with Laura Saunders

ANGELO ARENA WILL DO just about anything to get away from Carl Icahn. Arena runs Marshall Field & Co., the Chicago retailer, and Icahn is an aggressive New York broker who heads a group that owns about 20% of Field's stock. At the moment Arena is so anxious about his fate in case Icahn tries a takeover that he is scrambling to line up a white knight merger with someone else—anyone else, even Carter Hawley Hale, the California chain Arena fought off so vigorously back in 1977.

Icahn, a 46-year-old, up-from-the-streets New Yorker, is using scare tactics pioneered by the likes of Harry Weinberg and Victor Posner: Don't associate with establishment investment bankers and law firms, build a reputation as a tough-minded liquidator, buy into companies trading below book value—and wait for the payoff. Most spectacularly, it comes in the form of an above-market buy-back: Companies will sometimes pay a hefty premium to boot a modern-day Visigoth off their stockholder rolls.

Such shenanigans used to be unusu-

al—but not today. The same slumping stock market that makes it attractive for Mobil to drill for oil on Wall Street encourages Icahn and his ilk. Statistics prepared by a Wall Street investment banking firm show the trend in its starkest terms. In 1981 there were 30 buy-backs at a premium, a record number. Since January 1980, corporations have paid \$200 million more than market prices to acquire their own shares from would-be raiders—a ransom package that is adding to the ranks of corporate highwaymen.

These days, in fact, trading on a bad name might be a sound investment strategy. Victor Posner, for example, operates out of a Miami high-rise and plays the black knight role to perfection. In 1979, UV Industries liquidated in hopes of avoiding his clutches, and aides say he earned \$80 million last year on \$200 million in stock sales.

Then there's Charles Bluhdorn's Gulf & Western Industries, the conglomerate nicknamed Engulf & Devour in a Mel Brooks movie. Bluhdorn made \$35 million on stock sales in 1981, including two fat bon voyage bonuses: Collins & Aikman paid G&W a \$1.8 million premium over market to go away, Cluett, Peabody

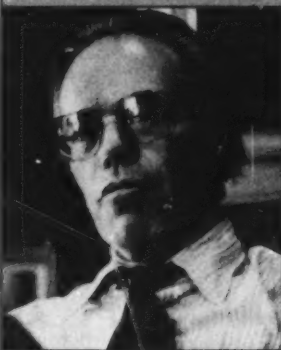
anted up \$1.2 million. G&W's earnings on these two investments, however, was probably far greater. A stock usually goes up when word gets out that a raider is on the scene, so a buy-back only adds to his profits.

A successful corporate predator does lots of homework. Posner, for example, reportedly considers accounting footnotes light reading. His targets—like those of his fellow travelers—are typically companies with stock trading well below book value. That means there is little downside risk and considerable upside potential. "These guys are able to capitalize on the fact that the stock market has been very inefficient in its pricing mechanism for the last 14 years," points out William Chatlos, a public relations man who is frequently involved in corporate duels.

A smart corporate predator also brings along a bag of tricks to do what the market won't: move a stock up. Look at a lawsuit filed by U.S. Industries against Clabir Corp. and its President Henry Clarke, a recent entrant in the raiding game. USI alleges that Connecticut-based Clabir is repeating the game it had played when it began buying General Host stock at just over

ful corporate raiders. In 1981 alone, companies in wonder the nasty art of making trouble is becoming a growth business on Wall Street.

Investor (Acquiring company)	Target company	% shares acquired	date	Buy-back agreement		Bon voyage bonus
				share price	premium	
Charles Bluhdorn (Gulf & Western Industries)	Cannon Mills	4.0%	8/17/76	\$22.00	26.6%	\$1,678,000
	West Point-Pepperell	6.2	8/15/79	41.00	9.3	1,050,000
	Robertshaw Controls	10.4	11/13/80	24.00	21.5	1,729,000
	Collins & Aikman	10.4	4/28/81	12.00	14.3	1,881,000
	Cinett, Peabody	10.4	11/10/81	16.50	25.7	1,229,000
Carl Icahn (Icahn & Co)	Saxon	9.9	2/7/80	10.50	33.3	2,013,000
	Hammermill	11.8	7/6/81	36.00	12.9	4,737,000
Victor Posner (Sharon Steel, NVF and others)	Kaufman & Broad	5.3	12/11/78	10.00	33.0	2,089,000
	Lane Inc	6.7	6/3/80	27.50	10.0	402,000
	Foremost/McKesson	9.3	5/4/81	42.00	7.3	4,600,000
Saul Steinberg (Reliance Group)	Lomas & Nettleton	25.0	10/6/78	17.75	30.3	6,961,000
	Fenn Central	7.9	2/11/80	26.24	6.0	2,726,000
	Federal Paper Board	24.4	6/4/81	40.00	14.3	9,275,000



Charles Bluhdorn



Carl Icahn



Victor Posner



Saul Steinberg

\$9 per share. "By means of a carefully sequenced program of purchases, press releases and SEC filings," says the complaint, "Clabir was able to manipulate and lead the market in General Host stock, thereby boosting the General Host stock price over a three-month period by approximately 50%." The payoff came in June 1980, when General Host was selling at nearly 18. The company bought out Clabir and a group of investors for \$4 million over market.

That, of course, was only the tip of Clabir's profits on its General Host venture. But it isn't doing as well with USI. Clabir reportedly is heavily margined, and USI's stock price has gone down instead of up since the acquisitions began. In another recent bad-guy blunder, G&W reportedly lost money on its position in Salant Corp.

Still, one rarely hears of a predator missing his mark. The head of a corporation that paid a bye-bye bonus to Posner admits he had been warned by his investment bankers that he was a likely target. His company had a lot of cash and its stock was selling below book. Posner phoned, he says, and politely informed him that he had

filed a 13(d) with the SEC—the form that indicates a holding of 5% or more in a public company. The executive was glad to get out whole. "I would not choose that mode of life," he explains, "but Mr. Posner is a certain kind of American success story. The law says what he's doing isn't illegal. He's part of the system."

And a part that flourishes in today's market. Despite their financial successes, few of the more famous predators actually attempt takeovers. Nobody remembers when Saul Steinberg acquired a business outside the scope of his Reliance Group. Still, he has gone after stocks as diverse as the New York Times and Filmways.

Icahn, a newer entrant, challenged Tappan in 1979 and then forced a white knight merger with Electrolux AB. Thus bloodied, he walked away with bon voyage bonuses in later forays against Hammermill and Saxon. "Build an image of a shark," suggests one Wall Street veteran. "They rarely attack humans, but when you are in the water and you spot a fin, you get out of the water."

Low stock prices, of course, are a

major reason for so many real take-over attempts. The market makes it cheaper to raid than build from the ground up. Consider the case of Icahn and Marshall Field. The company has a good name and valuable real estate in Chicago and elsewhere, but its shares are selling at half of their estimated true value. Why? Management has been asleep at the cash register. In 1982 Field earnings will barely match their decade-ago levels.

Time perhaps for a jolt from outside. That's why it is naive to think of the Icahns, Posners and Steinbergs as always bad and the corporate executives they duel as always good. Just the fear of a raider's bid has awakened more than one complacent executive. A little boardroom paranoia can be as beneficial for stockholders as a quick price jump after news leaks out that a corporate raider is in the wings.

On Wall Street, as in nature, predators are natural and essential to a healthy balance of power. In today's down market the bad guys are out in force. Until there are fewer bargains to be had, they will probably keep winning. ■

devaluation of the peso are clear enough. Whether the benefits will last may depend on "minidevaluations" to come.

Why mañana came early

By Howard Rudnitsky

THE SURPRISING THING about Mexico's devaluation of the peso last month was the timing of the move, not its size. Since the last big devaluation of the Mexican peso—40% in 1976—Mexico's inflation rate seemed moderate only in comparison with other Latin countries. By the hard, remorseless standards of world money managers, the trend was insupportable.

Consider these numbers:

Year	Mexican CPI*	U.S. CPI*
1977	28.9%	6.5%
1978	17.5	7.7
1979	18.2	11.3
1980	26.3	13.5
1981	30.0 est.	10.4

*Year-end to year-end change.

But over the same period, armed with increasing oil revenues, Mexican authorities had allowed the peso to weaken only slightly—from just under 20 pesos to the dollar in 1976 to about 26 to the dollar as 1981 ended. Through the first weeks of 1982, you could tell by the hordes of customers from south of the border flocking into Houston, Miami and southern California, snapping up appliances, clothes and real estate, that a major devaluation was universally expected.

The conventional wisdom was that, as a helpful gesture toward an incoming president—Miguel de la Madrid Hurtado takes office in December—outgoing President José López Portillo would face up to the inevitable and devalue the peso sharply in, say, July and thereby give the new president a fresh start in dealing with the country's overheated economy. But events were moving too swiftly. As 1982 be-



Shop window in a Houston mall
No longer worth the trip?

gan, the outflow of pesos from Mexico was running at over \$100 million per day by some estimates. Despite its sizable oil revenues, Mexico's current account balance wound up \$11 billion in the red in 1981. At the rate the economy was going, it was likely to reach a \$15 billion deficit through 1982. The need for decisive action became a matter of *boy*, not *mariana*. On Feb. 18 the government devalued the peso by 28%.

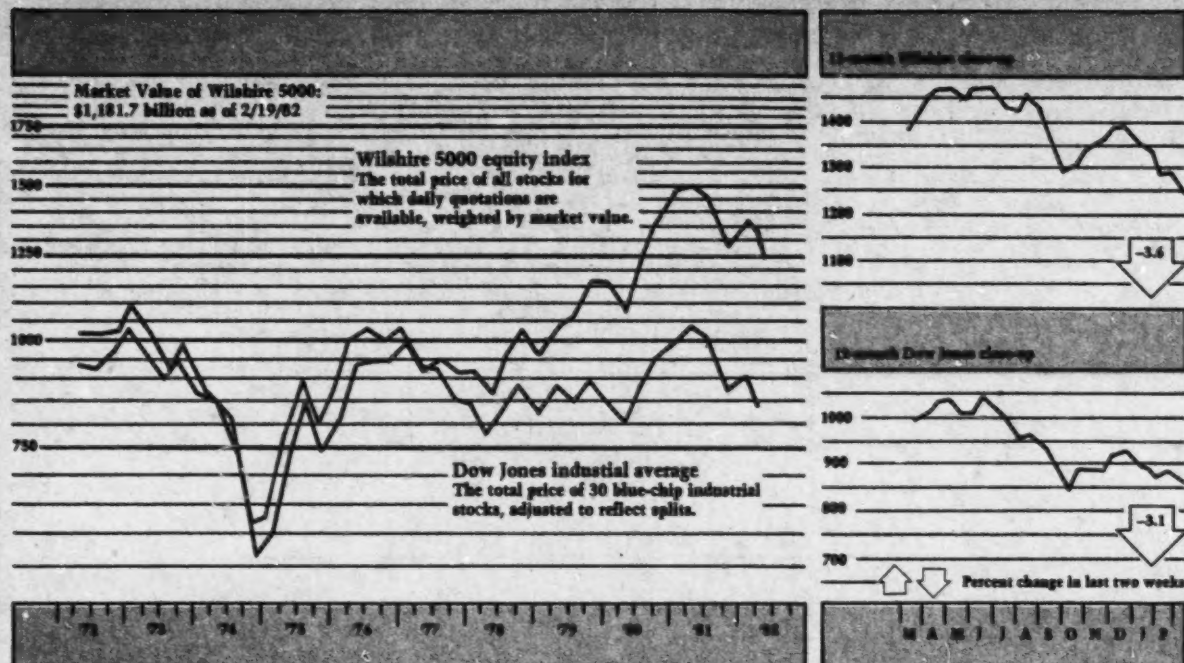
Mexico City's depressed stock market—the 43% decline in the Bolsa average last year was the worst of any sizable stock exchange in the world—reacted to the shock with a leap of joy. On the day news of the devaluation got out, after one of the most hectic trading sessions in memory, the Bolsa average rose over 25%. It has retreated since, but prices following the devaluation were generally holding well

economy, including cuts in public spending and postponed wage increases. Thus far, investor reaction has been positive. José Luis Gomez Pimienta, president of the Mexico Fund, the biggest mutual fund specializing in Mexican securities (assets: about \$64 million after devaluation), figures that investors will need time to sort things out. When they do, he says, they will come to realize that, despite the rising oil glut and worldwide recession, Mexico's growth prospects, even reduced, are still better than most other nations'. "There's more to the Mexican economy than just oil," he says. "It accounts for less than 10% of our GNP. As long as they aren't overburdened with heavy dollar debts—and despite a few widely publicized problem companies like Grupo Industrial Alfa, most haven't such heavy dollar debts—many Mexican companies should continue to grow well in excess of inflation rates. Mexican stocks today are very cheap by any measure."

In agreement is John Rhoads, a former Bache & Co. securities analyst who came to Mexico in 1964 and stayed to form his own brokerage firm. Immediately after the devaluation, Rhoads flew to New York to sell institutional investors on the idea that, with the long anticipated devaluation out of the way, there is now a strong likelihood of a period of relative monetary stability. But Rhoads has one important reservation. "This devaluation was a one-shot catch-up," he says. The longer-term beneficial effects of the devaluation, he thinks, will hinge on the Mexican government's resolve to curb spending and adhere to a formula of monthly "minidevaluations" indefinitely.

Here's how he thinks these "minidevaluations" would probably work. "Each month the Mexican government will take the difference between the annualized inflation rates [at home and in the U.S.]. Say, for example, it's 8% in the U.S. and 44% in Mexico, so that's 36%. Divide that by 12 months, and the monthly minidevaluation rate is 3%." As long as Mexico's government doesn't yield to the temptation to fudge or ignore the differences each month, Rhoads believes there will be less worry about another flight of capital. It would go a long way toward ensuring that new capital would come into Mexico—permanent capital the country urgently needs to grow. ■

The Forbes Wilshire 5000 Review



Coming down again. So far 1982 has not been a good year for Wall Street. The Wilshire index shows that securities gave up over \$89 billion in market capitalization since the year started. And the downward trend continues: Another \$25 billion in capitalization disappeared during the last two weeks.

The NYSE and NASDAQ indexes lost between 3 and 4 percentage points over the two-week period, but the decline was even worse on the Amex. It dropped 5.6%. In fact, over the past 52 weeks the Amex has been hit much harder than the other exchanges: Amex stocks are off a hefty 18.4%. The largest percentage loser on the Amex was Data Access Systems,

down 84% over the last year. The big damage, however, came from 52-week declines of more than 50% in large-capitalization U.S. and Canadian energy stocks such as Anglo Energy, Felmont Oil, Husky Oil, MCO Resources, Mitchell Energy & Development, Ranger Oil and Sundance Oil.

Look at what the market-focus figures show has happened to the high P/E stocks over the last year. They have dropped 16.4%, substantially more than other market-focus groups. This is a clear indication that investors are having second thoughts about paying large premiums on the expectations of future earnings. There is too much uncertainty over tomorrow's economy.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones Industrial	NYSE Composite	AMEX Market Value Index	NASDAQ Composite
in last 4 weeks	-2.4	-2.5	-2.9	-2.7	-2.8
in last 52 weeks	-10.2	-11.9	-9.6	-18.4	-6.9

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	less	high	low	over \$40	under \$4
in last 4 weeks	-3.3	-0.6	-4.3	-1.9	-0.9	-1.3	-3.4	-1.3	-2.2	-1.3
in last 52 weeks	-8.8	3.2	-17.4	3.8	6.1	-2.1	-1.9	2.9	-5.9	7.2

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

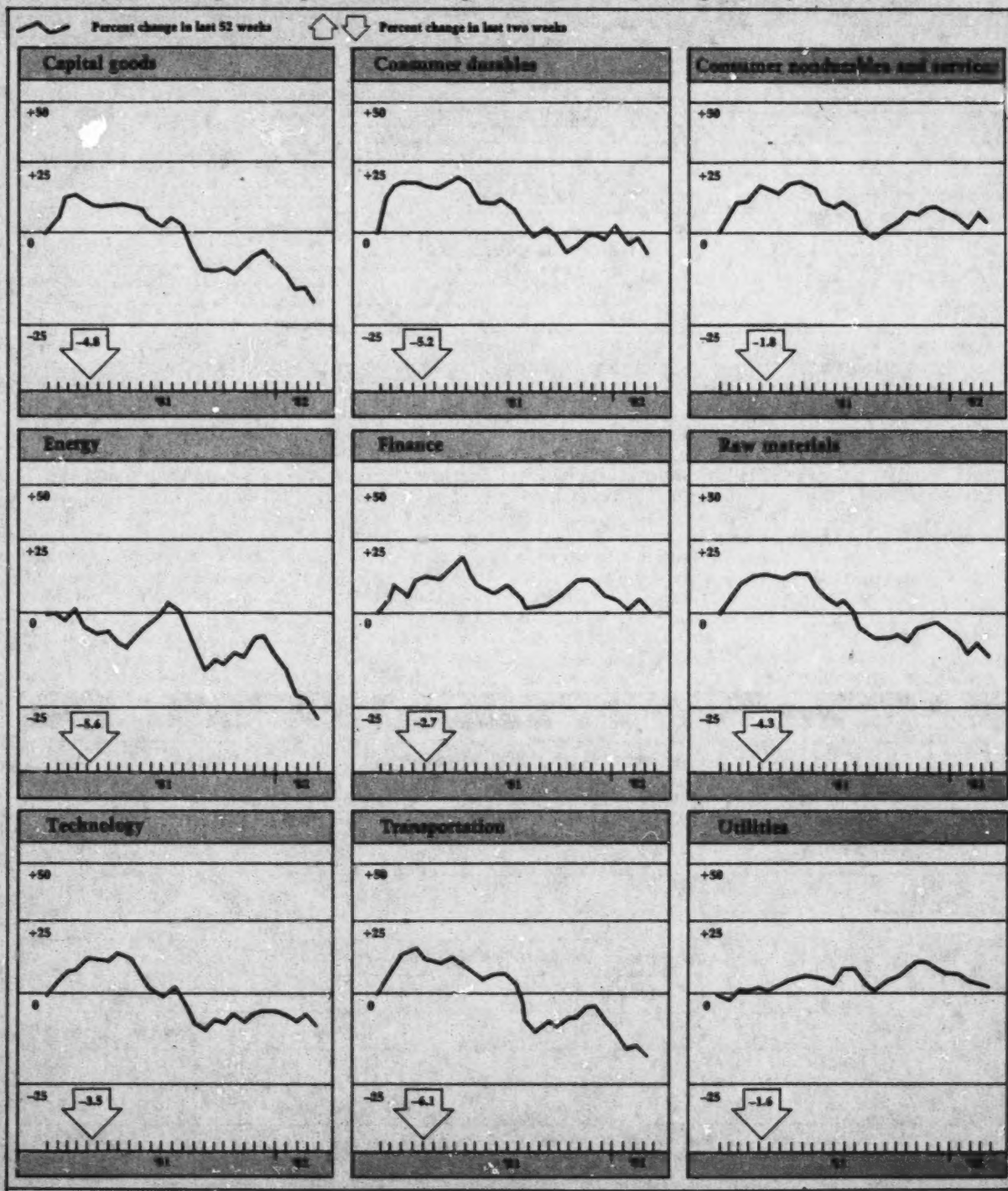
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/19/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Bad news everywhere. All nine sectors show a two-week decline, but transportation stocks, in a 6.1% tailspin, were hit the hardest. With the fall of Freddie Laker and a continuing stream of negative earnings reports, investors are fast losing faith in the air transport industry.

The energy sector, with a 5.6% downward move, continues to probe for new depths. Price cuts within and outside of OPEC will put more pressure on earnings of

energy firms. Consumer durables, close behind in the losers' column, were off 5.2%. The "just around the corner" rebound expected from Detroit continues to stay at least one block ahead of reality. Capital goods registered a 4.8% setback—reflecting the effect that economic woes are having on corporate plans to retool for the future. In the midst of all this gloom, the best relative showing came from utilities, which posted only a 1.6% decline.



Note: All data for periods ending 2/5/92. Prepared by Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

The list of loaded laggards we ran in July 1980 is up an average of 56%. That good news sent us scurrying back to the computer to crank out a fresh batch of potential bargains.

The lovely uglies

By Steve Kichen
and Paul Bornstein

IF CUTE-LOOKING HIGHFLYERS have your investment portfolio in the doldrums, perhaps it's time to change partners. Look, instead, at some of the securities that sit quietly on the

sidelines. Many can pay handsome rewards with some careful courting and a little patience.

No, we are not starting a dating service for ailing handbag or auto equipment manufacturers. We have found, however, that the prettiest investments aren't always the best.

Regularly we scan the market for companies that trade well below book value but seem otherwise reasonably healthy. We call these wallflowers loaded laggards, and the list we published July 21, 1980 shows how they can live up to that name.

None of these companies, of course, had what it took to make Kidder, Peabody's list of Nifty Fifty high P/E stocks. But look at the performance of the two groups. Since June 1980 our 25 not-so-nifty companies posted gains that average 56%, while the superstars managed to move up 28%. Not only did our underdogs outshine Wall Street's bathing beauties, they also put the market averages to shame. During the same period the S&P's 500 were up 13%, the Dow was down 3% and the Wilshire 5000, a measure of total market performance, was up a mere 3%.

The adjacent table shows how our 1980 laggards have fared. The star was Oxford Industries, which shot up by some 223%. Two other sleeping beauties were Fabri-Centers of America and House of Fabrics, both up nearly 170%. Patient investors in Cunningham Drug Stores gained 103% when this drug chain was bought by CD Holding at \$18 a share. And early in 1981 Pamida, which restructured into a closed-end investment firm, PMD Investment Co., offered to buy back all of its outstanding stock at \$6 a share, an 85% markup over the June 1980 price.

These gains sent us scurrying back to our computer, and on page 152 there is a list of 50 depressed companies that may also be candidates for strong rebounds. We eliminated stocks selling for less than \$1 per

Loaded laggards of 1980, revisited

If you invested \$1,000 in each of the 25 stocks in the loaded laggards table FORBES printed in July

1980, your portfolio would now be worth over \$39,000. That's a 56% return in about 18 months.

Company/principal business	Price June 1980	Recent price	% change
Adams Drug/retail	3%	4%	30%
American Motors/automotive	5%	2%	-49
Bobbie Brooks/apparel	3%	1%	-40
Ceco/construction equipment	13%	16%	21
Cluett, Peabody/apparel	8%	15%	77
Cunningham Drug Stores ² /retail	8%	18	103
Fabri-Centers of America/textiles	5	13%	168
First Wisconsin/bank holding	23%	27%	19
Hart Schaffner & Marx/apparel	12%	18%	49
Helene Curtis Industries/cosmetics	6%	13	93
House of Fabrics/textiles	4%	11%	169
Jewelcor/retail	3%	3%	7
Magic Chef/home appliances	6%	8%	27
McNeil Corp./industrial equipment	13%	13%	-1
Munsingwear/apparel	14	14%	4
Outboard Marine/recreation	10%	19%	89
Oxford Industries/apparel	9%	31%	223
Pamida ³ /retail	3%	6	85
Phillips-Van Heusen/apparel	11%	15%	31
Questor/auto, recreation products	5%	9	64
Salant/apparel	5%	9%	65
Sheller-Globe/auto parts	5%	12%	120
Springs Mills/textiles	15	24%	62
Triangle Industries/metal fabricating	8%	11%	38
Wurlitzer/musical instruments	7%	4%	-43

¹Firm filed Chapter 11. ²Acquired by CD Holding at \$18 a share. ³Company sold assets and changed name to PMD Investment; offered \$6 a share for all shares.

share, but our screening covered the New York and American Exchanges as well as the over-the-counter market. As in most compilations of investment bargains, there is a liberal sprinkling of textile and apparel firms. Several are repeats from previous lists. But there are also some surprising newcomers: A number of electronics firms now pop up on our computer printouts.

Many of the companies in the table are struggling or are in troubled industries, but they all have several points in their favor. For starters, these securities are selling well below book value. Look at the leader, Liberty Fabrics of New York. For every dollar you plunk down for Liberty shares, you pick up \$2.70 in book-value assets.

Our second criterion is important too. Each of these firms had to be profitable and selling at a low price-to-

earnings multiple. In the case of Liberty, for example, that figure is a bargain-basement 3.5. Only a few new loaded laggards are priced near the overall market multiple of just over 7. In fact, 60% of the securities are selling at less than 5 times earnings.

Each of the companies on our current list also shows at least a 10% return on net worth. This level of profitability may not equal recent rates of inflation and, if this trend continues, won't allow a company to finance growth out of current earnings. Still, if a firm can earn a minimum of 10% in this deepening recession, this seems like an acceptable base on which to build when the economy improves.

All the companies on our list aren't standing still either. Consider Cyclops, a Pittsburgh-based specialty steelmaker. It sells at 3.6 times earnings and at a book-to-price ratio of

2.24. While Cyclops' operations are focused on specialty steel, it has been getting rid of its less-profitable units and expanding into oil and gas production. It has estimated natural gas reserves of 25 billion cubic feet. Other laggards in unusual industries include Altair, a manufacturer of industrial equipment, and Kewaunee Scientific Equipment, a manufacturer of laboratory equipment and furniture.

Unless the market rewrites the book on investment strategy, our new group of undervalued securities contains several stocks that are likely to win big over the next five years. At the moment, many of the issues are selling at or near their two-year lows. For example, C&R Clothiers, a California-based retail clothing chain, is down 74% and Glenmore Distilleries down 53% from their recent peaks. In all likelihood, the group also

Q. Which insurance broker takes risk out of risk management?

A. Rollins Burdick Hunter.

**ROLLINS BURDICK
HUNTER**

Taking Risk Out Of Risk Management
Worldwide

Statistical Spotlight

contains one or more candidates for acquisition, leveraged buyouts or share repurchases.

Beauty, they say, is in the eyes of

the beholder. So why not embrace an overlooked textile or apparel company? Keep one thing in mind, however, before you tear out this list and dash off to your stockbroker. Play the field. One of the four losers on our last list was apparel maker Bobbie Brooks,

which recently filed for bankruptcy. When the market drives a multiple down to ridiculous levels it can be a warning that earnings are drying up and that the firm is about to shift into the red. That's why there's virtue in diversity. ■

Loaded laggards of 1982

With Wall Street in the doldrums, this is an ideal time to shop for bargains. The 50 stocks listed here are ranked in terms of the dollars of book value every investment dollar

buys. These companies are all earning at least 10% on net worth, and 60% trade at a price/earnings multiple of less than 5—well below the market multiple.

Company/principal business	Book value/price	Recent price	Price range 1980-present	Latest 12 months EPS	P/E	Working capital per share	Return on net worth	Indicated yield
Liberty Fabrics of NY/textiles	2.70	8%	11%—4%	\$2.41	3.5	\$10.25	10.4%	—
C&R Clothiers/retail	2.60	1%	4%—1%	0.43	2.9	1.68	13.1	—
Hampton Inds/apparel	2.26	5%	7%—3%	1.34	3.8	7.92	11.5	—
Cyclops/steel	2.24	22%	39—18%	6.21	3.6	22.86	12.2	6.0%
Weldotron Corp/industrial machinery	2.08	3%	5—1%	0.78	4.8	5.86	10.0	—
Rose's Stores/retail	2.07	17%	20%—11%	3.81	4.7	26.72	10.3	4.5
Ceco/construction equipment	2.01	16%	24%—12%	4.08	4.1	19.93	12.1	5.8
Century Papers/paper products	1.96	5	5%—2%	1.33	3.8	6.73	13.5	—
Weisfields/retail	1.96	12%	16%—10	2.73	4.6	13.67	11.1	6.4
First Wisconsin/bank holding	1.88	27%	35%—19%	6.65	4.2	59.31	12.7	7.2
Canrad-Hanovia/electrical equipment	1.87	2%	4—1	0.80	3.3	5.74	16.3	—
Glenmore Distilleries/distilling	1.87	16%	34%—15%	3.23	5.0	20.31	10.5	6.2
Adams Drug/retail	1.85	4%	6%—2%	0.81	5.4	4.95	10.0	0.9
Michigan Sugar/food processing	1.79	14%	32%—7%	3.77	3.9	17.18	14.2	8.3
Noel Industries/apparel	1.78	3%	6%—1%	1.12	3.2	4.12	17.3	—
Altair/industrial equip	1.77	4%	8%—3%	1.60	3.0	6.53	18.9	—
Ronco/household prods	1.77	3%	5%—2%	1.34	2.7	6.40	20.8	—
Gordon Jewelry/retail	1.74	13	21—11%	3.02	4.3	16.55	13.3	4.3
Littlefield, Adams/apparel	1.70	4%	8%—3	1.18	3.9	4.67	14.9	6.9
Commercial Metals/metal proc	1.69	14	26—13	2.52	5.6	16.62	10.6	3.1
Movie Star/apparel	1.67	12%	13%—9	2.42	5.2	15.22	11.4	4.8
Spang Industries/electronics	1.67	10	13—8%	1.99	5.0	12.11	11.8	3.6
Jaclyn/handbags	1.66	5%	6%—4	1.04	4.9	7.29	12.1	7.8
Hastings Mfg/auto equipment	1.65	12%	13%—8%	2.66	4.8	16.77	12.5	5.0
Fab Industries/textiles	1.60	12%	16%—8	3.03	4.0	16.13	15.4	4.1
Blue Bell/apparel	1.57	21%	37%—20%	3.45	6.2	21.87	10.2	8.4
Frank Paxton/forest products	1.56	29	30—22	5.86	4.9	30.70	12.9	5.1
Varo/electronic equip	1.56	6%	15%—6%	1.32	5.1	7.20	12.4	5.9
Kewaunee Scientific Equip/lab equip	1.55	11%	12%—5%	1.74	6.6	12.52	11.5	5.4
North Amer Phillips/electronics	1.53	34	59%—23%	7.67	4.4	36.23	14.7	5.0
Olla Industries/handbags	1.53	12%	15—7%	2.05	6.1	16.30	10.6	3.2
Coast Mfg/luggage	1.50	2%	5%—2%	0.52	4.8	2.80	13.8	—
Esquire Radio & Electron/electronics	1.50	20%	24%—10%	4.76	4.4	31.45	15.2	3.2
Baker Brothers/climate-control equip	1.44	7%	9%—4%	1.12	6.8	9.07	10.1	3.1
Intercontl Dynamics/aerospace	1.43	5%	11%—4	1.20	4.4	6.31	15.9	1.9
Ciurett, Peabody/apparel	1.41	15%	16%—7%	2.25	6.8	16.97	10.4	5.0
Allen Organ/musical instr	1.38	20	20%—12%	3.76	5.3	21.96	13.5	2.8
Armstrong Intl/electronics	1.38	4%	5%—2%	0.45	9.7	4.75	17.1	—
Kennington/apparel	1.38	8	13%—7%	1.91	4.2	10.39	17.2	—
Central Maine Power/elec utility	1.36	12%	14%—10%	2.13	5.8	177.20	12.6	14.5
Kiddie Products/infant products	1.34	15%	20%—7%	2.62	5.9	17.50	12.5	—
Russ Togs/apparel	1.33	12%	16%—9	2.86	4.5	14.82	16.6	7.8
Tonka/toys	1.33	25%	34%—7%	4.38	5.8	38.60	13.2	1.6
GI Export/exports vehicles	1.30	3%	5%—1%	0.66	5.1	4.33	15.0	—
Pat Fashions Industries*/apparel	1.25	18	18%—5%	4.94	3.6	20.02	21.8	0.8
Barton Brands/distilling	1.19	10%	12%—7	3.11	3.4	11.05	24.8	11.9
Aceto Chemical/spec chemicals	1.15	15%	16%—10%	2.66	5.9	15.91	14.5	—
Palm Beach/apparel	1.13	15%	29%—13	4.64	3.3	16.02	26.9	7.9
Weyenberg Shoe Mfg/footwear	1.12	27%	29—14%	3.83	7.2	31.45	12.3	4.2
Dynascan/electronics	1.11	6%	11%—2%	0.91	7.4	7.55	12.1	—

*Company is considering sale of assets and reorganizing into an investment firm.

Source: Standard & Poor's

Want to miss out on some juicy takeovers while earning a nice low return? Then try writing options.

A LOSING GAME

By John Train



Every year or so in this space I deplore certain investment houses' practice of getting their customers involved in options-writing programs. Why don't I abandon the subject? Because many brokers are still pushing these programs. They intimate to their prospects that selling options is intrinsically a moneymaking strategy and that such programs can return 15% or more on the investor's capital with little risk.

In practice, though, by far the largest part of all investors who attempt this scheme end up lowering their return rather than raising it. After all, ultimately they are trading against each other, both sides can't gain, although the broker does.

Many practical studies have shown that selling options is not an intrinsically superior strategy, even though a few skillful managers will produce exceptional performance in specific cases.

Five mutual funds were started in 1977 to sell options. All are managed by skilled, professional firms. Since such firms, for obvious reasons, give their publicly reported funds their best efforts, these performances should be representative of the top of the likely range of options-selling results.

John Train is president of Train, Smith, Investment Counsel, New York, and the author of 'The Money Masters and Dance of the Money Bees.'

And how did they do? Here are the results for calendar 1981. As usual I am indebted to Thomas Nod-

Starting date	Fund	Original issue price*	Net asset value†	Cash distributions	Adjusted net asset value**	Total return††
4/77	Colonial Option Income	\$12.50	\$9.67	\$6.36	\$16.03	28.2%
6/77	Federated Option Income	15.00	12.43	5.45	17.88	19.2
6/77	Kemper Option Income	15.00	12.56	7.31	19.87	32.5
10/77	Oppenheimer Opt' Income	25.00	23.22	9.91	33.13	32.5
6/77	Putnam Option Income	15.00	12.62	7.36	19.98	33.2
Average total return						29.1%
Average annual return						6.5%

*Includes 8.5% load charge. †As of 12/31/81. **Net asset value plus cash distributions equal adjusted net asset value. ††On original issue price over 4½ years.

dings, a Chicago investment adviser, for these calculations. Although interest rates, and thus opportunity cost, were high during the year, the

such obvious alternative vehicles as Treasury bills or money funds.

Last year I pointed out that a hidden penalty of the options-selling programs is opportunity cost.

Investors should be especially careful of this risk during a time of corporate takeovers at high premiums over market values.

The second table shows some of the premiums at which takeovers were consummated in 1981. A good way to deal yourself out of such profits is to sell options on your holdings of underpriced companies.

It might all be worthwhile if you really could expect a very high yield

from the options program between takeovers, but as you can see from the first table, even these most conspicuous accounts of the options

Target company	Acquiring company	Target company before offer	Share price offered	Premium paid over preoffer price
Mallinckrodt	Avon	\$40	\$50*	20%
Dean Witter	Sears	26	50	92
Coldwell, Banker	Sears	23	42	83
Hobart	Dart-Kraft	19	40	111
Conoco	Du Pont	50	88	76
Shearson Loeb Rhoades	American Express	33	62	88
Bache Group	Prudential Ins	20	32	60
Beckman Instruments	SmithKline	28	50*	79
Compugraphic	Agfa-Gevaert	11	14*	27
Memorex	Burroughs	10	14	40
Marathon Oil	US Steel	68	104*	53
St. Joe Minerals	Fluor	27	51	89
Kennecott	Sohio	26	62	138
Average Premium Paid				74%

*Acquisition not yet completed.

Source: David L. Babson & Co., Inc., Boston.

average annual rate of return from the beginning was little changed by the results of operations in 1981. It is 6.5% for all the funds, vs. an average annual return of 6.1% at the end of 1980. Far from being a satisfactory way of generating a 15% income, options-writing turns out to generate little more income than a conventional passbook savings account and barely half the return of

manager—which undoubtedly received their very best attention—have been unable to produce interesting results. One reason is the commissions involved in these programs. According to an SEC study, commissions often eat up to 20% or more of the equity in an active options-selling portfolio every year.

Options selling, a broker's dream, is often an investor's nightmare. ■